LGIP
LOCAL GOVERNMENT INVESTMENT POOL

COMMONWEALTH OF VIRGINIA
Department of the Treasury
Manju S. Ganeriwala, State Treasurer
P. O. Box 1879
Richmond, Virginia 23218

Toll-Free (800) 643-7800
Phone (804) 786-1156
Fax (804) 225-3478

Participant Newsletter March 31, 2022

LGIP
Investment Guidelines Compliance (03-31-22):

	Actual	Max.
● Diversification:		
U. S. Treasury/Agency	29%	100%
Repurchase Agreements	10%	50%
Negotiable CDs & BAs	33%	40%
Commercial Paper	26%	35%
Corporate	1%	25%
AAA Sovereign Govt	1%	10%
● Maturity Limitations:		
Average Days to Maturity	37 days	60 days

LGIP EM
Investment Guidelines Compliance (03-31-22):

	Actual	Max.
● Diversification:		
U. S. Treasury/Agency	36%	100%
Repurchase Agreements	0%	50%
Negotiable CDs & BAs	33%	45%
Commercial Paper	9%	35%
Corporate	14%	25%
AAA Sovereign Govt	6%	10%
Virginia Treasury LGIP Portfolio	2%	15%
● Duration Limitations:	0.84 years	1 Yr +/-3Mo

LGIP Monthly Statistics (03-31-22):

- Avg NAV: $7,989,798,000
- Active Accounts: 824
- Simple Yield: 0.24%
- Effective Yield: 0.24%
- NAV (per Share): $1.00

Quarterly Performance:

	3rd Qtr FY 22	YTD FY 22
● Average Yield:		
LGIP ($ weighted)	0.20%	0.14%
Institutional Money Funds[1]	0.02%	0.03%
Treasury 3-Mo. Constant Maturity[2]	0.30%	0.13%

[1]Consists of 484 institutional money market funds totaling $3.1 trillion as reported by iMoneyNet as of 03-31-22.

[2]Federal Reserve Bank H.15 Release.

LGIP EM Monthly Statistics (03-31-22):

- NAV: $344,247,000
- Active Accounts: 35
- Simple Yield: 0.35%
- Yield as of 03-31-22: 0.39%
- NAV (per Share): $9.89

Quarterly Performance:

	3rd Qtr FY 22	YTD FY 22
• Total Return:		
LGIP EM	-0.87%	-1.05%
U.S. 1-Year Treasury Bill Index[1]	-0.58%	-0.58%
● Average Yield:		
LGIP EM ($ weighted)	0.38%	0.30%
U.S. 1-Year Treasury Bill Index[2]	1.02%	0.43%

[1]The annual performance benchmark is BofA Merrill Lynch U.S. 1-year Treasury Bill Index + 15 bps.

[2]The ICE BofAML US 1-year Treasury Bill Index Yield to Maturity as of 03-31 2022.

Market and Economic News

LGIP program fund yields moved higher during the January to March quarter as the Federal Reserve raised policy rates to a range of 0.25 percent to 0.50 percent. Market yields rose over the same period as the Fed focused on tackling high inflation and signaled that a steady progression of rate increases will come over the balance of the year. The Russian invasion into Ukraine drove commodity prices higher and led to a widening in money market credit spreads. Uncertainty stemming from that conflict was cited by Fed officials as a reason that policy rates did not increase by 50 basis points in March. Futures trading suggests a probability of 50 basis point rate hikes at both the May and June FOMC meetings. If correct, this would take the range of overnight interest rates to 1.25 percent to 1.50 percent by the end of this fiscal year. Pricing for the December meeting is considerably wider but consistent with FOMC and economist projections for rate increases at every meeting in 2022.

In mid-March the FOMC raised policy rates as had been widely expected. In its statement the FOMC wrote that more rate increases are coming this year while balance sheet reduction will be announced “at a coming meeting.” In the quarterly Summary of Economic Projections (SEP) the median forecast for Fed Funds at the end of 2022 increased to 1.90 percent, from 0.90 percent in December, and in 2023 to 2.80 percent, from 2.10 percent. These revisions are consistent with market indicators of the path of future short term rates. The median expectation for inflation is that it will decline in each of the next two years but will remain above the Fed's two percent target through 2024. GDP projections were marked lower and the statement highlighted risks to growth and inflation stemming from the Russian invasion into Ukraine. Market participants generally viewed the statement as having a hawkish tilt given the increase in projections for short term rates and reacted by pricing in even more rate hikes through mid-2023.

Federal Reserve Chairman Powell reiterated in his press conference that he does not see the projected path of rate hikes leading to a recession given the robust jobs market. He acknowledged that hikes larger than 25 basis points could be forthcoming as one FOMC participant had voted for at the March meeting. In public comments after the meeting several additional FOMC members indicated their willingness to support 50 basis point moves should inflation remain stubbornly high. The prospect of a rapid increase in rates leading to an economic slowdown has resulted in a flatter yield curve and isolated points of inversion, where shorter maturity yields exceed longer yields. Chair Powell addressed the yield curve saying that he focuses on the three month to two year points which remain very steep, however a persistently inverted yield curve has historically been a good predictor of lower future rates.

LGIP EM Portfolio Update

The first quarter of calendar 2022 saw a rapid sell-off and delivered the worst quarterly performance in 30 years for short and intermediate fixed income investors. The one year US Treasury Bill yield rose from 0.38 percent at year end to 1.60 percent at the end of March while the two year US Treasury note yield rose from 0.73 percent to 2.33 percent. The LGIP EM portfolio average maturity has remained shorter than the 1.0 year target in anticipation of rising interest rates, declining from 0.96 years in December to 0.84 years in March. We plan on remaining short of our one year target maturity as the Fed begins what may become the fastest pace of rate hikes since the early 1990s. Widening credit spreads have presented an opportunity to add to the portfolio yield and to remain nimble as short term rates step higher over the balance of the year.

The LGIP EM share price declined as short term yields rose sharply during the January to March quarter. We expect the share price to increase back towards par over time given the high quality of securities held in the portfolio. Our policy is to sell bonds with realized gains or near amortized cost when necessary for liquidity or portfolio management purposes. We prioritize holding other bonds to maturity where possible. These bonds maturing at par will provide that uplift to the share price. This means that the distributed yield posted weekly on our website will remain lower than the yield to maturity, which is the rate of return an investor could expect to receive holding all securities to final maturity. As of March 31 the distributed yield was 0.39 percent while the yield to maturity was 1.75 percent. The recent policy shift by the Fed has driven volatility higher, and we expect volatility to remain high as the path towards higher interest rates evolves. A shorter average maturity and an increase in highly liquid US Treasury bonds in this environment will best achieve our principals of safety and liquidity first.